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China, Peoples Republic of

Agricultural Situation

China Changes Agriculture Investment Restrictions

2007

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Report Highlights: On October 31, the "Industrial Catalog for Foreign Investment (2007 Amendment)" was approved by the State Council and published. It will become effective on December 1, 2007. The Foreign Investment Catalogue is designed to provide information for Chinese and foreign companies regarding governmental investment and industrial policy. Specifically, it provides guidance for investments that the Chinese Government favors, discourages, or bans. Restrictions of particular concern to the agricultural industry are on seed development and production, soybean crushing, and distribution services. This report contains an UNOFFICIAL translation of certain sections related to agriculture.

Includes PSD Changes: No
Includes Trade Matrix: No
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Summary:

On October 31, the "Industrial Catalog for Foreign Investment (2007 Amendment)" was approved by the State Council and published. It will become effective on December 1, 2007. The Foreign Investment Catalogue is designed to provide information for Chinese and foreign companies regarding governmental investment and industrial policy. Specifically, it provides guidance for investments that the Chinese Government favors, discourages, or bans. Encouraged industries are often eligible to receive tax incentives or other advantages. Broadly speaking, investment is restricted in sectors that are considered not to meet the needs of China's national economic development. Restrictions come in many forms, though a cap on ownership of firms is a common way to enforce the restriction. The release of the catalogue provides a signal to ministries to implement changes in the investment regime in the areas of their responsibility.

Encouraged Investment: In agriculture, encouraged investments usually fall within the scope of enhancing the productive capacity of agriculture or technologies to reduce pollution. Few changes were made to this section.

Restricted Investment: Restrictions in the agricultural sector are concentrated in conventional seed development, agricultural production distribution and retail, oilseed processing, biofuel production, and some beverage production.

Banned Investment: Development and production of genetically modified plants and animals by foreign companies is banned by China.

Significant Changes to Policy

1. New Restrictions:
 - a. Development, breeding, and production of new varieties of crops and seeds. A Chinese firm must control any foreign invested venture.
 - b. Soybean processing.
 - c. Expanded restrictions to cover all carbonated beverage production rather than just local brands.
 - d. Bio-fuel production.
 - e. Distribution. Restriction on foreign investment to a minority stake in retailers, wholesalers, and distributors with over 30 outlets that sell grain, cotton, vegetable oil, sugar, medicines, tobacco, pesticides, and chemical fertilizer.
2. New Bans:
 - a. Development and production of GMO breeds of domestic animals and aquatic products.
 - b. Golf courses.
3. New Encouraged Areas:
 - a. Production of natural food additives and food ingredients.

Issues of Concern: The new investment catalogue shows China's continued concern about foreign participation in the food sector and its perceived impact on food security. Three particular areas are a concern for U.S. companies: seed production and development, soybean processing, and distribution services. China has incrementally increased the threshold for development and production of conventional seeds and continues to completely ban investment in the genetically enhanced seed business. Restrictions on the seed industry

seem contradictory to China's aim of increasing agricultural productivity, but China's agriculture establishment sees this as a way to protect the many small domestic firms and technology from competition from multinational companies. The addition of soybean processing to the catalogue shows the government's concern over consolidation in the crushing industry and the multinationals strong position with efficient, modern crushers located in the more logistically advantageous coastal provinces. Lastly, distribution services restrictions may limit the ability of retailers to develop their own solutions to delivery or storage problems, particularly as they move farther into second and third-tier city markets.

Note: Implementation of the investment catalogue is crucial and many specifics related to changes will be clarified as the relevant ministries interpret the State Council's directive.

Unofficial Translation (certain formatting added to increase readability)
Selected Sections Related to Agriculture

"2007 Industrial Catalog for Foreign Investment"

Encouraged, Restricted and Prohibited Foreign Investment

The "Industrial Catalog for Foreign Investment (2007 Amendment)" has been approved by the State Council, is to be published December 1, 2007, and will be effective upon promulgation. The National Development and Reform Commission and Ministry of Commerce issued "Industrial Catalog for Foreign Investment (2004 Amendment)" will cease to be enforced.

October 31, 2007

Industrial Catalog for Foreign Investment
(2007 Amendment)

To encourage foreign investment in industrial catalog:

Agriculture, forestry, animal husbandry, fisheries

1. Transformation of low-yield farmland
2. Woody material, edible oil, spices and industrial raw materials cultivation and development, and production
3. Vegetables (including edible mushrooms and melon), tea cultivation technology, and pollution-free products serialization development and production
4. Sugar, fruit trees, and forage crops technology development and production
5. Flowers and nursery production base construction and operation
6. Rubber, sisal, and coffee cultivation
7. Medicine cultivation and aquaculture (limited to joint ventures, cooperation)
8. Comprehensive utilization of crop straw and organic fertilizer production resources
9. Wood (bamboo) cultivation improvements and new varieties of trees
10. Aquatic breeding (excluding China's unique varieties)
11. Combat desertification and soil erosion, such as planting trees and grass protection of the ecological environment
12. Aquatic products breeding, sea-cage aquaculture, industrial aquaculture, and ecological marine species aquaculture

Manufacturing

1. Food processing industry
 1. Biological feed, straw, fodder, and the development of aquatic feed production
 2. Aquatic and shellfish products processing and development of seaweed functional foods

3. Vegetables, storage, and livestock products processing
2. Food industry
 1. Infants and elderly persons functional food development and production
 2. Forest food development, production, and processing
 3. Natural food additives and food ingredients production (limited to joint ventures, cooperation)
3. Beverage manufacturing
 1. Fruit and vegetable drinks, protein drinks, tea drinks, coffee beverages, beverage plant development and production
4. Tobacco industry
 1. Cellulose acetate tow and processing (limited to joint ventures, cooperation)
 2. Tobacco flake production (limited to joint ventures, cooperation)
5. Textile industry
 1. Use of high-tech industries with special textile producers
 2. Luxury fabrics and finishing
 3. Environmental protection requirements of special natural fiber (including the addition of other inputs outside wool, flax, bamboo, silk, cotton, etc.) product processing
6. Leather, fur, feathers (cashmere) and its products
 1. Clean leather and fur processing technology
 2. Post finishing leather processing technologies
 3. Luxury leather (sofa leather, car cushion leather) processing
7. Timber processing, wood, bamboo, rattan, and grass products industry
 1. Comprehensive utilization of wood and bamboo new technologies and new product development and production
8. Paper and paper products industry
 1. Forestry - paper on the integration of the single production line with an annual output of 300,000 tons and above scale chemical wood pulp and a single production line with an annual output of 100,000 tons and above scale chemical mechanical pulp and simultaneous construction of high-grade paper and paperboard production (limited to joint ventures, cooperation)
18. Special equipment manufacturing
 39. Agricultural machinery: agricultural facilities and equipment (greenhouse automatic irrigation equipment, nutrition liquid fertilizer automatic configuration and equipment, highly efficient vegetable nursery equipment, soil nutrient analysis apparatus), supporting engine power 120 kilowatts and above tractors and ancillary tools, low fuel consumption, low noise, low diesel emissions, with a large tractor supporting the residual spray machine, high performance rice transplanter, cotton picking machine, corn combine
 40. Forestry machinery equipment technology
 41. Crop straw and rice husk utilization equipment
 42. Utilization of livestock and poultry agricultural waste

Restrictions on foreign investment

1. Agriculture, forestry, animal husbandry, fisheries
 1. Development, breeding and production of new varieties of crops and seeds (Chinese side must hold controlling share)
 2. Precious species lumber processing (limited to joint ventures, cooperatives)
 3. Cotton (unginned cotton) processing
2. Manufacturing
 - (1) Secondary agricultural food processing industry
 1. Soybeans and rapeseed edible oil processing (Chinese side must hold controlling share) and corn deep processing

2. Biological liquid fuel (fuel ethanol, biodiesel) production (Chinese side must hold controlling share)
- (2) Beverage manufacturing
 1. Rice wine and famous liquor production (Chinese side must hold controlling share)
 2. Carbonated beverage production
- (3) Tobacco industry
 1. Leaf tobacco processing production
6. Wholesale and retail trade
 2. Grain, cotton, vegetable oil, sugar, medicines, tobacco, motor vehicles, crude oil, pesticides, plastic sheeting, chemical fertilizer wholesale, retail and distribution (set up over 30 outlets with sales from a number of suppliers of different types and brands of commodities, outlet chain is to be controlled by the Chinese side)

Prohibiting foreign-invested industrial catalog

1. Agriculture, forestry, animal husbandry, fisheries
 1. China's rare and unique species breeding and cultivation (including planting, animal husbandry, aquaculture)
 2. Transgenic plant seeds, livestock, poultry, and aquatic breeds development or production